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CALIFORNIA LEGISLATURE—1997–98 REGULAR SESSION

ASSEMBLY BILL

No. 2804

**Introduced by Committee on Public Employees, Retirement
and Social Security (Honda (Chair), Migden, Scott, Shelley,
and Wildman)**

(Principal coauthor: Senator Solis)

**(Coauthors: Assembly Members Baca, Bowler, Bustamante,
Campbell, Cedillo, Cunneen, Ducheny, Knox, Ortiz,
Prenter, Strom-Martin, and Villaraigosa)**

(Coauthors: Senators Burton, Hughes, ~~and Karnette~~)

Johnston, Karnette, and O'Connell)

March 12, 1998

An act to amend Sections 22951 and 22955 of, and to repeal Section 22952 of, the Education Code, relating to ~~the State Teachers' Retirement System~~ *public retirement systems*, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

AB 2804, as amended, Committee on Public Employees, Retirement and Social Security. ~~State Teachers' Retirement System~~ *Public retirement systems*: benefits.

(1) Existing law provides a continuous appropriation from the General Fund to the Teachers' Retirement Fund of an amount equal to 4.3% of the annual total creditable compensation for purposes of meeting certain obligations and benefit costs.

This bill would, change that appropriation on ~~January~~ *July* 1, 1999, to 3.102% of the annual total creditable compensation. The bill would require another additional specified continuous annual appropriation to be made from the General Fund to the Teachers' Retirement Fund commencing on October 1, 1998, and require those funds to be first transferred to eliminate unfunded actuarial liabilities on or before June 30, 2027. The bill would require specified additional employer contributions to be paid on account of liabilities for sick leave credit benefits and would repeal provisions requiring additional employer contributions for specified retirement allowance increases. The bill would make legislative findings and declarations regarding the provisions.

(2) *Under existing law, as set forth in the annual Budget Act, funds are appropriated for the support of various state government entities, including the California State Senate.*

This bill would require, for each of the fiscal years 1998–99 to 2007–08, inclusive, that the Controller transfer to the General Fund, from the appropriation made to the California State Senate, an amount equal to 10% of an amount that was loaned to the California State Senate in 1998 to fund its share of certain contributions to the Public Employees' Retirement System.

(3) The bill would become operative only if AB 1102, AB 1150, and SB 1528 are all enacted and become operative.

~~(3)~~

(4) The bill would declare that it is to take effect immediately as an urgency statute.

Vote: $\frac{2}{3}$. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. (a) The Legislature finds and declares
2 that:

3 (1) There have been many recent research studies
4 which indicate that in future years California will face a
5 significant shortage of qualified teachers.

6 (2) It is in the best public policy interest of the people
7 of California that the Legislature act aggressively to
8 insure that the conditions of employment for teachers are
9 conducive to the growth of the work force.

10 (3) A substantive and sound retirement plan is a
11 critical aspect of creating a stable and secure
12 employment environment for the teaching profession.

13 (4) Since its inception the State Teachers' Retirement
14 System has been in an underfunded status. While the
15 State Teachers' Retirement System has been
16 underfunded, there have been no significant increases in
17 retirement benefits for teachers. Instead, teachers and
18 other interested parties have worked in a collaborative
19 effort with the Legislature to ensure that the system
20 become fully funded.

21 (5) Pursuant to Section 22955 of the Education Code,
22 the Legislature has required the General Fund to
23 contribute 4.3 percent of prior year teacher payroll to be
24 deposited in the Teachers' Retirement Fund for the
25 purpose of accomplishing full funding of the State
26 Teachers' Retirement System.

27 (6) A recent study by the State Teachers' Retirement
28 System revealed that retirement benefits for California
29 teachers lag behind those of other states.

30 (7) The most recent valuation by the State Teachers'
31 Retirement System has indicated that the system is
32 approaching full-funding and should reach that goal
33 within the next three years.

34 (8) It is therefore appropriate that the Legislature
35 continue to provide the funding designated by Section
36 22955 of the Education Code to improve benefits for the
37 past, present, and future members of the State Teachers'
38 Retirement System to ensure the proper growth and

1 stability of the teaching work force in the State of
2 California.

3 (b) In enacting this act, it is the intent of the
4 Legislature to:

5 (1) Provide California teachers with retirement
6 benefits which are competitive with other states.

7 (2) Provide a final compensation benefit which best
8 reflects the highest earnings of State Teachers'
9 Retirement System members and is commensurate with
10 the benefit which is predominantly applicable to other
11 public employees in the State of California.

12 (3) Provide a cost-of-living adjustment that is
13 compounded annually.

14 (4) Provide appropriate early retirement incentives
15 which allow workforce flexibility for school districts and
16 options for teachers who desire to leave the profession
17 early.

18 (5) Ensure that teachers who have devoted their lives
19 to the education of the children of California receive
20 health benefits upon retirement.

21 (6) Provide retirement options which encourage
22 mature and experienced teaching professionals to
23 continue their careers after normal retirement age.

24 SEC. 2. Section 22951 of the Education Code is
25 amended to read:

26 22951. In addition to any other contributions required
27 by this part, employers shall, on account of liability for
28 benefits pursuant to Section 22717, contribute monthly to
29 the Teachers' Retirement Fund 0.25 percent of the
30 creditable compensation upon which members'
31 contributions are based.

32 SEC. 3. Section 22952 of the Education Code is
33 repealed.

34 SEC. 4. Section 22955 of the Education Code is
35 amended to read:

36 22955. (a) Notwithstanding Section 13340 of the
37 Government Code, commencing ~~January~~ July 1, 1999, a
38 continuous appropriation is hereby annually made from
39 the General Fund to the Controller, pursuant to this
40 section, for transfer to the Teachers' Retirement Fund.

1 The total amount of the appropriation for each year shall
2 be equal to 3.102 percent of the total of the creditable
3 compensation of the immediately preceding calendar
4 year upon which members' contributions are based, to be
5 calculated annually on October 1, and shall be divided
6 into four equal quarterly payments.

7 (b) Notwithstanding Section 13340 of the
8 Government Code, commencing October 1, 1998, a
9 continuous appropriation, in addition to the
10 appropriation made by subdivision (a), is hereby
11 annually made from the General Fund to the Controller
12 for transfer to the Teachers' Retirement Fund. The total
13 amount of the appropriation for each year shall be equal
14 to .524 percent of the total of the creditable compensation
15 of the immediately preceding calendar year upon which
16 members' contributions are based, to be calculated
17 annually on October 1, and shall be divided into four
18 equal quarterly payments. The percentage shall be
19 adjusted to reflect the contribution required to fund the
20 normal cost deficit or the unfunded obligation as
21 determined by the board based upon a recommendation
22 from its actuary. If a rate increase is required, the
23 adjustment may be for no more than 0.25 percent per
24 year and in no case may the transfer made pursuant to this
25 subdivision exceed 1.505 percent of the total of the
26 creditable compensation of the immediately preceding
27 calendar year upon which members' contributions are
28 based. At any time when there is neither an unfunded
29 obligation nor a normal cost deficit, the percentage shall
30 be reduced to zero.

31 The funds transferred pursuant to this subdivision shall
32 first be applied to eliminating on or before June 30, 2027,
33 the unfunded actuarial liability in the fund identified in
34 the actuarial valuation as of June 30, 1997.

35 (c) For the purposes of this section, the term "normal
36 cost deficit" means the difference between the normal
37 cost rate as determined in the actuarial valuation
38 required by Section 22226 and the total of the member
39 contribution rate required under Section 22804 and the
40 employer contribution rate required under Section

1 23400, and shall exclude (1) the portion for unused sick
2 leave service granted pursuant to Section 22719, and (2)
3 the cost of benefit increases which occur after July 1, 1990.
4 The contribution rates prescribed in Section 22804 and
5 Section 23400 on July 1, 1990, shall be utilized to make the
6 calculations. The normal cost deficit shall then be
7 multiplied by the total of the creditable compensation
8 upon which member contributions are based to
9 determine the dollar amount of the normal cost deficit for
10 the year.

11 (d) Pursuant to Section 22001 and the case law, the
12 members are entitled to a financially sound retirement
13 system. It is the intent of the Legislature that this section
14 shall provide the retirement fund stable and full funding
15 over the long term.

16 (e) This section continues in effect but in a somewhat
17 different form, fully performs, and does not in any way
18 unreasonably impair, the contractual obligations
19 determined by the court in *California Teachers'*
20 *Association v. Cory*, 155 Cal. App. 3d 494.

21 (f) Subdivision (b) shall not be construed to be
22 applicable to any unfunded liability resulting from any
23 benefit increase or change in contribution rate that
24 occurs after July 1, 1990.

25 (g) The amendments to this section during the
26 1991–92 Regular Session shall be construed and
27 implemented to be in conformity with the judicial intent
28 expressed by the court in *California Teachers' Association*
29 *v. Cory*, 155 Cal. App. 3d 494.

30 SEC. 5. *For each of the fiscal years 1998–99 to 2007–08,*
31 *inclusive, the Controller shall transfer to the General*
32 *Fund, from the appropriation made in Item 0110-001-0001*
33 *of Section 2.00 of the annual Budget Act, an amount equal*
34 *to 10 percent of the total amount that, pursuant to a*
35 *Department of Finance loan authorization letter of June*
36 *8, 1998, was loaned in augmentation of that item for the*
37 *purpose of funding contributions pursuant to Section*
38 *20822 or former Section 20751 of the Government Code.*
39 *Notwithstanding any other provision of law, the transfers*

1 *made pursuant to this section are hereby deemed to fully*
2 *satisfy all obligations to make repayment of that loan.*

3 *SEC. 6.* This act shall become operative only if
4 Assembly Bill 1102, Assembly Bill 1150, and Senate Bill
5 1528 of the 1997–98 Regular Session of the Legislature are
6 all enacted and become operative.

7 ~~SEC. 6.~~

8 *SEC. 7.* This act is an urgency statute necessary for the
9 immediate preservation of the public peace, health, or
10 safety within the meaning of Article IV of the
11 Constitution and shall go into immediate effect. The facts
12 constituting the necessity are:

13 In order for enhanced retirement benefits to be
14 available to members of the State Teachers' Retirement
15 System at the commencement of the school year, this act
16 must take effect immediately.

